



Country or Region: Agricultural Equipment Trends In Russia

Luba Savchenko
03/2006
ID:# 136545

Summary

Due to the continued growth of the Russian economy (average 6 to 8 percent per annum over the past several years), the Russian agribusiness industry has witnessed many positive developments, as well as growing financial resources. However, the deficit of agricultural machinery remains a major issue in the Russian market. As a result, in 2006 the Russian government developed a strategy to improve the agriculture machinery industry. End Summary.

Market Demand

A general boom in consumer spending has also translated into increased demand for a range of food and agricultural products. This in turn has placed pressure on the agricultural sector, which is in dire need of reform and modernization, to meet this increased demand and has created the need for a variety of agricultural machinery. The Russian economy overall suffers from a lack of adequate financial resources to fund purchases of machinery and equipment and the agricultural sector is no exception. While recently more financial resources have become available for purchases of agricultural machinery, there is still a huge demand for such equipment.

Russia's need for agricultural machinery is extremely large. It is estimated that the sector needs thousands of basic units. By 2006, Russia had 572,500 tractors (shortfall of 36%), 156,600 harvesters (shortfall of 48%), 40,300 forage harvesters (shortfall of 37%), 199,100 cultivators (shortfall of 47%), and 248,200 seeders (shortfall of 32%).

In addition to the tremendous burden of an equipment shortage, the average level of worn machinery currently operational is high. Almost 80 percent of farming machinery has been in use for over 20 years, and within the next two to three years Russia will have to discard approximately 20,000 – 25,000 units as they will reach the end of their useful life. It is estimated that Russian farmers will need approximately 17,000 combines and 45,000 tractors per year for the next 5 years to meet demand.

To overcome the shortage of agricultural machinery and to modernize its fleet, Russia needs to purchase agricultural machinery valued at \$3.22 billion. These estimates were based on the cost of domestically manufactured machinery. An increase in the share of imported machinery will also lead to growth of the volume of financing.

Domestic manufacturers of agricultural equipment are able to satisfy only 35 to 60 percent of demand. According to industry experts, annual market demand in new agricultural machinery and equipment is approximately \$3 – 3.5 billion. Despite market demand, opportunities for imported agricultural machinery will be limited unless sources of financing are found.

In order to compete with foreign suppliers, Russia needs to modernize its agricultural machinery industry and to develop a full range of higher quality machinery. In March 2006, the Cabinet of Ministers of the Russian Federation (RF) proposed a plan of wide-ranging measures for industry development. The plan is expected to be approved by the government in May 2006. The plan targets to improve competitiveness of domestic agricultural machinery, stimulate innovative and investment activities in the industry, develop commodity markets of agricultural machinery. It also plans to increase production of tractors by 18 percent, forage harvesters by 15 percent, grain harvesters by 33 percent.

by 2008. The Cabinet suggested that financing should come from the infrastructure fund. Improvement of the agricultural industry is among other recently announced national priorities.

It is very likely that Russia will turn to establishing joint ventures with Western manufacturers with a view of acquiring Western technologies and management practices. This will provide significant opportunity to U.S. manufacturers of agricultural machinery considering expanding their sales in Russia or entering the market. The proximity of CIS markets, the traditional consumers of Russian-made agricultural machinery, will be yet another argument in favor of this decision.

Market Data

There are over 650 companies involved in production of tractors and other agricultural machinery in Russia. Tractors, combines and spare parts constitute a major share (35 percent) of all agricultural machinery manufactured in Russia. These are produced by 8 tractor plants and 4 combine plants. In 2005, the volume of the agricultural machinery sector output was approximately \$1.2 billion, which was 1.5% of Russia's machine building industry, or 0.3% of the aggregated volume of total industrial output in Russia.

Due to insufficient demand for domestic agricultural machinery, Russian combine and tractor manufacturers operate at 10-12 % of their capacity; over 45 percent of manufacturers are unprofitable. The industry has not recovered from the crisis of the mid-nineties, when production of agricultural machinery fell tenfold. Since then, there has been a considerable consolidation within the industry and several large corporations and holdings were founded. Among these are Concern "Traktornye Zavody" (Tractor Plants - unites Lipetskiy, Valdimirsky, and Onezhsky Tractor Plants, Promtraktor, Kurganmashzavod, and others), Industrial Union "Novoye Sodruzhestvo" (new partnership, includes Rostselmash, Morozovskselmash, and others), Agromashholding (Krasnoyarsk Combine Plant, Volgograd Tractor Plant and others), and Kirovsky Zavod (Kirovsky Plant – includes St. Petersburg Tractor Plant, Kirovets-LandTechnik).

Recently several leading domestic producers introduced new models of tractors and combines. Annual output of the domestic agricultural machine building industry is estimated at approximately \$1 billion.

In 2004, production of tractors increased by 7.5% and combine harvesters by 45.4%, as compared to 2003. In 2005, domestic manufacturers produced only 9.5 thousand tractors, while in 1990 they produced 214,000 thousand tractors.

Domestic machinery prevails only in the combine harvesters market, which accounts for 70% of the market. At present, Agromashholding and Rostselmash manufacture nearly 90 percent of all combines in Russia. However, compared to 2004 the number of units sold decreased by 2,000, while in 2005 the share of imported machinery increased from 17% to 30%.

In 2005 CIS countries remained the major export markets (nearly 90 percent) for Russian agricultural machinery.

Russian Agricultural Machinery Exports in 2005
(number of units)

	2004	2005	Percent 2005
Grain Harvesters	1.779	3.541	199.0
Forage Harvesters	28	32	114.3
Tractors	2.220	1.674	75.4
Seeders	1.314	955	72.7
Ploughs	979	791	80.8
Harrows	894	748	83.7
Cultivators	170	202	118.8
Mowers	450	459	102.0
Fertilizer Spreaders	16	15	93.8

On average annually, Russia is able to replenish its fleet of agricultural machinery by 2-3%.

According to the Industry and Energy Ministry report, foreign manufacturers willing to assemble agricultural machinery in Russia would be required to gradually increase the proportion of locally manufactured components from 20% in the first stages to 50% within the next three to four years. The priority will be given to the products that do not have domestic analogues.

According to the same report, currently more than 12 joint ventures for industrial assembly of agricultural machinery are operating in Russia. These include Claas (Krasnodar), Kirovets-Landtechnik (St. Petersburg) and Dopstadt, and Eurotechnika (Samara) and Amazone. The report indicated that joint ventures with AGCO are under discussion.

In general the competition in the Russian market of agricultural machinery is increasing: domestic producers compete between themselves, as well as with new and refurbished imported machinery.

According to the Ministry of Agriculture, the volume of all agricultural machinery purchased in 2005 totaled to \$2.27 billion, the value of imports accounted for about \$1.3 billion. For the past several years, the share of imported agricultural machinery in the total market of agricultural machinery has been steadily increasing. In 2005, it grew from 41% to 54% as compared to 2004, while the share of domestically manufactured machinery dropped from 59% to 46%.

According to the Ministry of Industry and Energy, a substantial increase in the share of imports in the Russian market was due to unequal conditions of competition for Russian and foreign producers, primarily the application of a special regime to foreign producers' imports brought into the country as a contribution to a respective company's authorized capital without payment of VAT, and also by the understatement of the declared value of imports.

A majority of U.S. manufacturers of agricultural machinery (John Deere, CNH, AGCO) are already represented in Russia, and their products are available through their distributors or dealers. In general, the number of foreign companies present in the market did not change significantly over the last three years. Companies entering the market should be aware of the competition with major foreign agricultural machinery manufacturers.

While data is very imprecise, it appears that in 2004 the U.S. share of the import market (HS 84321-843390, 870120) was about 9%. Some factors favor U.S. sellers in the Russian market – most notably

high quality products – but there are also disadvantages such as higher prices, less government financing, and very aggressive competitors. In 2004, U.S imports of agricultural machinery totaled approximately to \$58.8 million (HS 84321-843390, 870120).

The following were Russian Agricultural Machinery Imports in 2005 (number of units):

	2004	2005	Percent 2005
Grain Harvesters	1.142	1.574	138.0
Forage Harvesters	394	323	82.0
Tractors	15.996	16.442	102.8
Seeders	1.907	1.526	80.0
Ploughs	1.841	5.285	287.1
Harrows	6.638	8.301	125.1
Cultivators	2.458	3.066	124.7
Mowers	1.659	2.600	156.7
Fertilizer Spreaders	1.178	1.569	133.2

*Source: Ministry of Industry and Energy Data

A majority of Russian farmers do not possess resources or instruments to attract financing for purchasing agricultural machinery. Until recently, leasing of agricultural machinery was possible only through government programs provided by the state-owned Rosagrosnab and Rosagroleasing companies, which receive budget funds for leasing operations. Currently, the considerable share of agricultural machinery for Russian farmers is acquired through Rosagroleasing. It was founded to provide financial leasing of locally manufactured machinery at a low interest rate of 4%. However, according to Article 58 of the Federal Decree “On Budget for 2006”, the restriction binding Rosagroleasing to provide financing for purchases of only domestically manufactured machinery may be shifted.

Due to low efficacy of the agricultural sector and a large number of unprofitable farms, the agricultural leasing segment was not attractive to commercial leasing companies. However, within the past three years, significant structural changes took place in the Russian agricultural sector such and big agri-industrial complexes continued to grow. This process was more visible in the grain industry, where interregional and national holdings have been developed. Structural changes and increasing investments allowed these companies to increase efficiency. On the background of a high grade of wear of production assets and lack of alternative financing tools, leasing appeared to become an effective resource of farm modernization. To date, Rosagroleasing is the leading Russia state-owned leasing company. By January 2005, Rosagroleasing contracted 1,553 deals for 15,933 pieces of equipment. In 2004, the volume of Rosagroleasing transactions totaled to \$719.5 million, more than double that of 2003. The volume of services provided by commercial leasing companies has been increasing as well, nearly 10% growth in 2004 compared to 2003.

Despite industry needs, demand for domestic or imported farm machinery will be limited unless new sources of financing are found. Sales of domestic or imported farm machinery in the coming year should continue to grow as more agricultural enterprises become solvent and new business-type farms emerge. Some import sales may be made to those receiving help from regional or federal governments, although a majority of these sales may be restricted to domestic products.

Large sales, however, will probably be possible only for sellers who are able to provide financing, as well as support a system for purchases that go substantially beyond simple direct sales, or are willing to accept barter payments. Some major U.S. companies have proposed comprehensive equipment, financing and service projects, which could significantly increase farm machinery imports to Russia. However, these companies will be able to implement these projects only when large export credit guarantees are available from such sources as the U.S. Export-Import Bank.

Best Prospects

Russian agricultural interests are calling for more powerful tractors, up to 450 HP, large grain combine harvesters (450 HP), large forage harvesters, and multipurpose machinery of increased power. A list of needed farm machinery that is insufficiently available domestically, includes grain seeders, cultivators, grain and forage harvesters, fertilizer sprayers, and irrigation machinery. Specifically, combines and other harvesting equipment have been a traditionally strong import item for Russia.

Cultivators and other soil preparation equipment, including plows, harrows, cultivators, seeders, and fertilizer spreaders. In recent years, agricultural tractors have accounted for the largest imported agricultural equipment item.

Light tractors and appliances and irrigation equipment also have potential.

Used and refurbished machinery may find good prospects if a supplier will ensure reliable services and steady part supply.

Key Suppliers

European agricultural machinery suppliers are the major competitors to U.S. companies. European companies are known to actively encourage local buyers to purchase their equipment. They aggressively promote their products and consistently participate in Russian agricultural machinery and equipment exhibitions. Additionally, European producers have been very enterprising in arranging special government finance deals.

According to the Russian Union of Manufacturers of Agricultural Machinery, the major foreign suppliers of agricultural equipment to Russia in 2004 were Germany (45.2%), Netherlands (7.5 %), Ukraine (5.7%), and France (4.8%). Russian distributors import well-known European brands such as, Amazone, Claas, Grimme, Gaspardo, Gregoire Bessen, KRONE, Lemken, Rabe werk, Ropa, and Valtra.

In general, the receptivity of U.S. agricultural machinery is extremely positive. Though twice as expensive as Russian counterparts, U.S. brand agricultural machinery enjoys a strong reputation for high quality and reliability, comfort, labor saving features, and high productivity.

Prospective Buyers

The formation of free market relations in the industry has had a great impact on investment dynamics. It is the driving force behind the development of agro-industrial integration, growth of demand for advanced agricultural technologies, and the procurement of efficient and reliable agricultural equipment and machinery.

Sales to specialized and agricultural products processing companies may also provide some opportunities where financially healthy Russian companies are trying to expand to satisfy growing demand for domestic food. For example, increased sales may be possible in the areas of grain processing equipment, fruit and vegetable processing equipment, dairy livestock breeding, pig and poultry production. Others are farming units taken over by large vertically integrated food producing complexes and subsidiaries of oil and gas companies, which are increasingly investing in the sector.

A number of major foreign investors – Bunge, Cargill (US), Glencore (Switzerland), Louis Dreyfus, Bonduelle, CECAB (France), and Barilla (Italy) increased their activities in the Russian agricultural market. Investments of these giants into agricultural production in Russia will create additional opportunities for agricultural and processing equipment and machinery suppliers. Additionally, recent favorable changes in the euro/dollar and ruble/dollar exchange rates have improved the price competitiveness of U.S. products.

Market Entry

There are no companies, domestic or foreign, in a position to monopolize the Russian market for agricultural machinery. The most important factors that must be taken into consideration by U.S. companies seeking to penetrate the Russian market are pricing strategy, financing strategy, equipment service policy, after-sale service and personnel training, timely availability of spare parts and expendable supplies.

The recommended marketing techniques are:

- Finding a local partner specializing in agricultural machinery. Russian laws and regulations are not transparent, and an experienced dealer is an important asset.
- Exhibiting at national and local levels. Presentations at an industry trade show could be helpful in introducing a product to a larger audience of potential buyers (availability of technical information in Russian language is important).
- U.S. firms should tailor their market entry strategies to the needs of various end-user groups.
- In light of the current crisis in the Russian machine building industry and new Russia government initiative to improve the sector, some other alternatives should be considered to enter the market at this time. For instance, local manufacturers have production facilities that could be utilized by U.S. firms.

Market Issues & Obstacles

Specific trade barriers are not the key factor in limiting the import market. There are no formal import quotas or restrictions on farm machinery importation, and non-tariff trade barriers, such as product certification, have posed relatively moderate difficulty to date.

Certification: New imported machinery is subject to certification before it can clear customs to enter the country and be sold. A U.S. agricultural machinery supplier can obtain certification of product lines produced by his company by bringing Russian authorities to his plant to certify the

production process. Equipment produced at such plants is granted a certificate of compliance with the Russian standards for three years. Otherwise each shipment of imported farm machinery must be tested for conformation to the Russian standards at authorized testing stations located throughout Russia. The test cost varies depending on the number of units tested from a few hundred dollars to several thousand dollars. An equipment importer is responsible for customs clearance and certification procedures. Used and refurbished machinery and equipment does not require certification.

Tariffs and Taxes: Currently, the import duty for farm machinery and equipment vary from 5 to 15%. The Value Added Tax (VAT) is 18%, applied on the sum of the cost of the product plus import duty.

Classification	Import Duty
General Agricultural Equipment (HS8432-38)	5%
Agricultural Tractors (HS 8701)	15%
Small Farm Tractors (HS (87019)	5%

In January 2006, in effort to protect domestic producers of agricultural machinery the Russian government set temporary duty rates for combine harvesters and forage harvesters at no less than 100 Euros per KW of engine capacity. The new tariffs will be in effect for 9 months.

Trade Events

U.S. firms are advised to exhibit at Russian trade shows, as they are a powerful marketing tool and reassure Russian buyers that the company is committed to maintaining its presence in the Russian market. Companies occasionally make substantial floor sales at Russian exhibitions.

Golden Autumn, October 6-10, 2006

Russian Agricultural exhibition with foreign participation

Show profile: Agricultural machinery and equipment; livestock breeding; plant technologies; food products

[http:// www.apkvvc.ru/engaut.htm](http://www.apkvvc.ru/engaut.htm)

Agroprodmash, Trade Show, October 10-13, 2006

International Trade Show

Show profile: Agricultural equipment; equipment for garden and landscape maintenance, horti-& floriculture, food technologies; food

<http://www-eng.expocentr.ru/expo>

YugAgropischeMash, November 22-26, 2006

International Exhibition

Show profile: Agricultural machinery and equipment; crop cultivation; horti-& floriculture; feed & livestock breeding; food processing and packaging equipment,

<http://www.ifw-expo.com>

Resources & Key Contacts

Russian Ministry of Agriculture, www.mcx.ru

Ministry of Industry and Energy, <http://www.minprom.gov.ru>

For More Information

The U.S. Commercial Service in Moscow, Russia can be contacted via e-mail at: Luba.Savchenko@mail.doc.gov
Phone: 7 (495) 737-5030; Fax: 7(495) 737-5033 or visit our website: www.buyusa.gov/russia.

The U.S. Commercial Service — Your Global Business Partner

With its network of offices across the United States and in more than 80 countries, the U.S. Commercial Service of the U.S. Department of Commerce utilizes its global presence and international marketing expertise to help U.S. companies sell their products and services worldwide. Locate the U.S. Commercial Service trade specialist in the U.S. nearest you by visiting <http://www.export.gov>.

Disclaimer: The information provided in this report is intended to be of assistance to U.S. exporters. While we make every effort to ensure its accuracy, neither the United States government nor any of its employees make any representation as to the accuracy or completeness of information in this or any other United States government document. Readers are advised to independently verify any information prior to reliance thereon. The information provided in this report does not constitute legal advice.

International copyright, U.S. Department of Commerce, 2006. All rights reserved outside of the United States.